

Weekly Market Snapshot

European Banks: further to go

Weekly Recap

- Following a snap election on February 8, Japanese Prime Minister Sanae Takaichi secured a landslide victory with her party the LDP securing a two third of the lower house.
- Concerns rise over the rise in debts funding long term profitability with the rise of estimated of AI/data centres investments spending by US hyperscalers.
- Although precious metals suffered price corrections since January 28, they remain in solid long-term uptrends.

Snapshot

What Potential Lies Ahead for Banks after the Stellar 2025 Performance?

European banks delivered an exceptional stock market performance in 2025, averaging +67% in EUR, far outpacing all other European and American sectors.

What are the outlook and prospects for 2026?

Key Takeaways

- European banks remain undervalued and one of our preferred sectors.
- New opportunities and efficiency gains emerge, with limited risks.
- Estimated upside potential for the European sector in 2026: +15% on average.
- US banks are also healthy, but their appreciation potential is more limited.

Market	13/02/2026 Level	% Chg 1 Wk	Return Trend	
			1 Month	1 Year
Stocks				
S&P 500	6843	-1,7%	↘	↗
Euro STOXX 50	6022	-0,4%	↗	↗
FTSE 100	10556	+2,0%	↗	↗
Nikkei 225	57144	-0,9%	↗	↗
MSCI EM	1556	-0,6%	↗	↗
Bonds				
	Yield			
US 10Y	4,1	-2,4%	↗	↗
Gm 10Y	2,8	-1,5%	↗	↗
UK 10Y	4,4	-2,9%	↗	↗
Jp 10Y	2,1	-4,3%	↗	↘
IG Credit				
	Yield			
US	4,9	-0,8%	↗	↗
EU	3,1	-0,2%	↗	↗
UK	5,1	-1,2%	↗	↗
Alternatives				
Gold	4936	-2,9%	↗	↗
Copper	5,7	-3,7%	↘	↗
S&P Global Infra	3932	+1,5%	↗	↗
EU REITs	1762	+2,4%	↗	↗
BBG Hedge Fds	1862	-0,0%	↗	↗

ROTATION IN US STOCKS TO EQUAL-WEIGHT S&P 500, SMALL-CAPS



Source: BNP Paribas, Bloomberg

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Geopolitical and Market Turmoil

European and American markets are volatile this year, reflecting persistent geopolitical and trade tensions, as well as growing uncertainty around artificial intelligence (AI), particularly regarding the massive investments planned and their future profitability. In this unsettled climate, it may be worthwhile to focus on market segments that should be more sheltered from these disruptions—such as the banking sector—and assess their current potential.

Takeoff After Years of Challenges and Restructuring

Following 15 lean years (2007–2022), European banks had become significantly undervalued by early 2023. Since then, the economic recovery, rising interest rates, and steepening yield curves have created a more supportive environment for the sector. Today, they appear more solid than ever.

We had already identified these shifts, and the banking sector was even among our preferred market segments in 2025. Over recent quarters, earnings have frequently outperformed expectations, with the added advantage of limited exposure to the US trade tariffs.

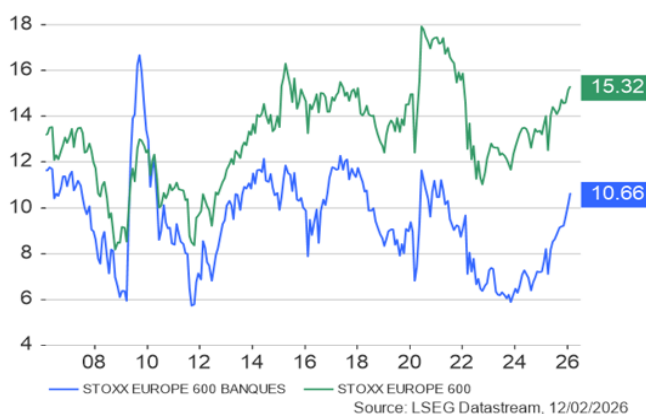
New Opportunities ahead

The economic recovery continues to bolster the sector, while regulators on both sides of the Atlantic are adopting a less restrictive stance. New opportunities are expected to emerge from:

- The Savings & Investment Union (an EU initiative to better channel savings toward productive investments),
- The Capital Markets Union (aiming for deeper financial integration in Europe through a single EU capital market),
- Major European infrastructure and defense plans, which will require substantial financing.

Additionally, significant efficiency gains are anticipated through artificial intelligence (AI).

EUROPEAN BANKS' FORWARD P/E RATIO VS STOXX 600 INDEX



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What about the Risks?

The main risk would be a sharp economic slowdown, which could increase non-performing loans and weaken trading and investment banking activities. However, the likelihood of such a scenario remains low, given the strong support from current monetary and fiscal policies.

Another risk is intense competition, particularly from less regulated or newer players that do not carry the legacy cost structures of some traditional financial institutions.

Currently, some investors fear that traditional banks may lose market share and profitability to AI-driven startups, which can identify market inefficiencies and opportunities much faster. While we acknowledge that certain financial segments may face revenue declines and heightened competition, we believe this potential margin pressure will be far outweighed by the massive productivity gains expected from AI in the banking sector.

Potential of the US Banking sector?

American banks are more expensive than their European peers but also further advanced in productivity gains and AI adoption. They also benefit more from the rebound in investment banking activities. When Goldman Sachs and Morgan Stanley released their strong results on January 15, they confirmed that investment banking was gaining momentum.

Other major U.S. banks also posted good results. However, the 10% cap on credit card interest rates proposed by the US president could both erode revenues and contradict the anticipated deregulatory trend. Additionally, concerns persist regarding the health of lower-income households and their solvency. On balance, we assess that U.S. banks offer less upside potential relative to their European peers.

Conclusion

After the recent gains, we recommend maintaining exposure to the sector, but with greater selectivity. Target banks that have lagged the rally, or those positioned in high-growth segments. The strong Q4 2025 results further reinforce our views

For 2026, we estimate the European banking sector's upside potential at ~15% on average (in addition to an average dividend yield of 4.5%). A P/E ratio of 12x would be more appropriate than the current level of 10.66x, given the fundamentals. European banks now feature very robust balance sheets, with improving profitability—their average ROTE (Return on Tangible Equity) has surpassed that of US banks. Consensus earnings expectations stand at +11% for both 2026 and 2027.

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